FedFin Daily Briefing

Wednesday, September 6, 2023

FSB Focuses on NBFI Liquidity, Leverage with Few Concrete Actions

Following its report recommending resolution-policy review, the FSB today continued its G20 reports with two focusing on NBFIs. The most substantive of these addresses sector liquidity. Recommendations here include adoption of pending OEF standards, continuing review of margining and work to determine if NBFI systemic-risk standards are warranted. The second report focuses on NBFI leverage, reiterating prior concerns about hedge funds and calling again for more data-gap analytics and international cooperation. Notably, though, the FSB says that the Basel Committee is now working on standards to limit prime-broker exposures to highly-leveraged NBFIs. Although very tentative, the FSB also suggests it could be possible for it, other international standard-setters, or national jurisdictions to consider risk-based capital standards for at least some NBFIs and greater attention to leveraged pension funds. Central clearing for government bonds and certain other instruments also remains under FSB review.

Fed Study: Big Bank Branches May Better Serve Customers

Fed staff have issued a report suggesting that new large bank branches tend to grow faster than new ones at small banks because large bank branches are favored by customers seeking lower prices or greater value. Prior studies have suggested that big-bank mergers lead to “banking deserts,” but this study suggests that even a smaller number of big-bank branches might provide the same or even better customer service than evident only in an analysis of branch closings. The study's authors call for further research into the determinants of branch growth and the role of big banks.

IMF Outlines Post-SVB Supervision Standards

In an opaque but nonetheless stinging rebuke to U.S. bank supervision, the IMF today released a working paper emphasizing the importance of supervisors having the will and ability to act on effective supervision, recommending that supervisors are given strong operational independence and accountability, clarity regarding the primacy of their safety-and-soundness mandate, adequate resources, and legal protection. The white paper also states that jurisdictions have improved risk monitoring, stress testing, and business model analysis since the IMF’s last supervisory report, but stresses that jurisdictions need more consistently to require that banks go beyond quantitative regulatory thresholds when risks are elevated.

Recent Files Available for Downloading

The following reports and analyses have been sent to retainer clients recently. Copies are also available to retainer clients on the Archives section of Federal Financial Analytics’ website: www.fedfin.com or clients may obtain the reports/analyses by e-mailing info@fedfin.com giving the requested item name, firm, and e-mail address. To learn more about *GSE Activity Reports*, click here.

- **GSE-083123:** As we noted yesterday, the global banking, securities, and insurance regulators who comprise the Financial Stability Board (FSB) are heading back to look again at securitization to see if the post-08 framework it crafted still works.

- **GSIB22:** As anticipated in the wake of recent bank failures, the FRB has proposed a significant revision to the current rules calculating systemic-risk scores that lead to GSIB designation.

- **CAPITAL234:** With this report, we conclude our assessment of the regulatory-capital proposal with analysis of what the sum total of the credit (see FSM Report **CAPITAL231**), operational (see FSM Report **OPSRISK22**), and market (see FSM Report **CAPITAL233**) rules could do in the real world of banks, nonbanks, foreign banks, and complex market interconnections.

- **CAPITAL233:** In this analysis, we turn to one of the costliest aspects of the proposed rewrite of U.S. regulatory-capital standards: the market-risk framework.

- **GSE-081423:** As Karen Petrou's memo today suggests, there are many reasons the new operational-risk framework proposed in the capital rewrite will not only be costly for covered banks, but also counterproductive for financial resilience.

- **CRYPTO45:** In conjunction with issuing a new supervisory policy for "novel" activities, the FRB has instituted a new process requiring non-objection letters before state member banks proceed with stablecoin or dollar-tokenization activities.

- **GSE-081023:** FHFA today released the results of the ninth stress test it's run on Fannie and Freddie since Dodd-Frank demanded this in 2010.

- **OPSRISK22:** Noting that operational risk is present at all banks due to most activities, the U.S. regulatory-capital rewrite would end the current approach to operational risk-based capital (ORBC).

- **FINTECH32:** FRB Vice Chairman Barr's assessment of SVB's failure included a commitment to pay additional supervisory attention to "novel" activities.

- **GSE-080823:** Our most recent analysis of the inter-agency capital proposal focuses on significant changes to the rules for securitization and credit-risk transfer positions.

- **CAPITAL232:** Based on our analysis of the inter-agency capital proposal's framework and its credit-risk provisions, FedFin turns now to the proposed approach to equities as well as to that for securitization exposures (i.e., those that are tranched rather than simple secondary-market issuances of packages of loans or other assets backed as needed by a single credit enhancement).

Federal Financial Analytics, Inc.
2101 LStreet, N.W. – Suite 300, Washington, D.C. 20037
Phone (202) 589-0880
E-mail: info@fedfin.com www.fedfin.com